

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Arlington
Contributory Retirement System
For the Four Year Period
January 1, 1999 - December 31, 2002
PERAC 09-016-07: 02**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	3
Statement Of Changes In Fund Balances	4
Statement Of Income	5
Statement Of Disbursements.....	6
Investment Income.....	7
Statement Of Allocation Of Investments Owned	8
Supplementary Investment Regulations	9
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	10
Note 2 - Significant Accounting Policies.....	11
Note 3 - Supplementary Membership Regulations.....	12
Note 4 - Administration Of The System	15
Note 5 - Actuarial Valuation And Assumptions	16
Note 6 - Membership Exhibit.....	17

April 21, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Arlington** Retirement System pursuant to G.L. c. 32, §. 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Arlington Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

1. Creditable Service Buybacks

During the review of members' and retiree files, there were three instances where creditable service buybacks were done incorrectly. Apparently, a previous Board Administrator did not understand the rules for calculating certain types of buybacks. Members were being charged at their current contribution rate and not at the rate in effect when the service occurred. For example, if a member had a 9% contribution rate and was buying back service that occurred in 1980, they were incorrectly charged 9%. The 7% contribution rate in effect in 1980 should have been used.

Recommendation

The Board should develop a plan for reviewing members' files and identifying all incorrect calculations and take appropriate action when necessary.

Board Response:

The Board has instructed the Retirement Administrator to research the buybacks and make any corrections that are needed.

Arlington Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$19,040	\$57,166	\$488,055	\$527,796
Short Term Investments	591,093	246,204	599,274	814,550
Fixed Income Securities (at book value)	26,223,109	33,654,313	37,767,597	37,877,079
Equities	9,337,074	0	0	0
Pooled Short Term Funds	85,119	0	0	0
Pooled Domestic Equity Funds	43,870,066	61,506,854	63,445,933	73,542,662
Pooled International Equity Funds	13,302,928	14,977,219	18,555,463	14,421,177
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	439,016	149,813	105,597	0
Pooled Real Estate Funds	0	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	314,738	438,318	480,698	436,896
Accounts Receivable	190	103,558	96,576	110,292
Accounts Payable	0	0	(1)	0
TOTAL	<u>\$94,182,373</u>	<u>\$111,133,445</u>	<u>\$121,539,192</u>	<u>\$127,730,452</u>
FUND BALANCES				
Annuity Savings Fund	\$20,758,959	\$19,969,094	\$19,270,131	\$18,509,349
Annuity Reserve Fund	10,749,449	10,327,218	9,726,539	9,598,397
Pension Fund	30,987,842	34,434,616	34,102,634	34,040,959
Military Service Fund	1,812	1,770	1,725	3,386
Expense Fund	0	0	0	0
Pension Reserve Fund	31,684,311	46,400,748	58,438,163	65,578,360
TOTAL	<u>\$94,182,373</u>	<u>\$111,133,445</u>	<u>\$121,539,192</u>	<u>\$127,730,452</u>

Arlington Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$17,955,606	\$9,152,133	\$33,914,955	\$2,009	\$0	\$50,454,486	\$111,479,189
Receipts	2,117,747	274,109	6,194,735	1,785	386,354	17,217,585	26,192,316
Interfund Transfers	(1,256,429)	1,260,683	2,089,866	(408)	0	(2,093,712)	0
Disbursements	<u>(307,574)</u>	<u>(1,088,528)</u>	<u>(8,158,597)</u>	<u>0</u>	<u>(386,354)</u>	<u>0</u>	<u>(9,941,053)</u>
Ending Balance (1999)	18,509,349	9,598,397	34,040,959	3,386	0	65,578,360	127,730,452
Receipts	2,206,091	284,754	5,937,143	61	441,479	(4,386,479)	4,483,049
Interfund Transfers	(995,695)	992,584	2,756,829	0	0	(2,753,718)	0
Disbursements	<u>(449,614)</u>	<u>(1,149,196)</u>	<u>(8,632,297)</u>	<u>(1,722)</u>	<u>(441,479)</u>	<u>0</u>	<u>(10,674,309)</u>
Ending Balance (2000)	19,270,131	9,726,539	34,102,634	1,725	0	58,438,163	121,539,192
Receipts	2,590,128	286,364	5,851,359	45	452,659	(8,501,402)	679,154
Interfund Transfers	(1,523,856)	1,523,856	3,536,013	0	0	(3,536,013)	0
Disbursements	<u>(367,309)</u>	<u>(1,209,542)</u>	<u>(9,055,390)</u>	<u>0</u>	<u>(452,659)</u>	<u>0</u>	<u>(11,084,901)</u>
Ending Balance (2001)	19,969,094	10,327,218	34,434,616	1,770	0	46,400,748	111,133,445
Receipts	2,436,562	308,419	6,153,504	42	575,553	(14,716,437)	(5,242,357)
Interfund Transfers	(1,460,317)	1,460,747	(430)	0	0	0	(0)
Disbursements	<u>(186,380)</u>	<u>(1,346,934)</u>	<u>(9,599,848)</u>	<u>0</u>	<u>(575,553)</u>	<u>0</u>	<u>(11,708,715)</u>
Ending Balance (2002)	<u>\$20,758,959</u>	<u>\$10,749,449</u>	<u>\$30,987,842</u>	<u>\$1,812</u>	<u>\$0</u>	<u>\$31,684,311</u>	<u>\$94,182,373</u>

Arlington Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$1,990,421	\$1,866,824	\$1,725,426	\$1,575,699
Transfers from other Systems	104,003	312,581	67,737	105,383
Member Make Up Payments and Redeposits	80,408	68,537	44,095	64,269
Investment Income Credited to Member Accounts	261,731	342,186	368,833	372,396
Sub Total	<u>2,436,562</u>	<u>2,590,128</u>	<u>2,206,091</u>	<u>2,117,747</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>308,419</u>	<u>286,364</u>	<u>284,754</u>	<u>274,109</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	70,525	67,697	89,401	71,088
Received from Commonwealth for COLA and Survivor Benefits	660,721	667,649	722,648	958,104
Pension Fund Appropriation	<u>5,422,258</u>	<u>5,116,014</u>	<u>5,125,094</u>	<u>5,165,543</u>
Sub Total	<u>6,153,504</u>	<u>5,851,359</u>	<u>5,937,143</u>	<u>6,194,735</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	1,722
Investment Income Credited Military Service Fund	<u>42</u>	<u>45</u>	<u>61</u>	<u>63</u>
Sub Total	<u>42</u>	<u>45</u>	<u>61</u>	<u>1,785</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>575,553</u>	<u>452,659</u>	<u>441,479</u>	<u>386,354</u>
Sub Total	<u>575,553</u>	<u>452,659</u>	<u>441,479</u>	<u>386,354</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	26,537	44,604	37,303	30,542
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	2,711	6,580	6,539	7,887
Misc. Income	6,299	0	0	0
Excess Investment Income	<u>(14,751,984)</u>	<u>(8,552,586)</u>	<u>(4,430,321)</u>	<u>17,179,156</u>
Sub Total	<u>(14,716,437)</u>	<u>(8,501,402)</u>	<u>(4,386,479)</u>	<u>17,217,585</u>
TOTAL RECEIPTS	<u>(\$5,242,357)</u>	<u>\$679,154</u>	<u>\$4,483,049</u>	<u>\$26,192,316</u>

Arlington Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
	2002	2001	2000	1999
Annuity Savings Fund:				
Refunds to Members	\$129,137	\$241,948	\$151,890	\$194,052
Transfers to other Systems	<u>57,243</u>	<u>125,361</u>	<u>297,724</u>	<u>113,522</u>
Sub Total	<u>186,380</u>	<u>367,309</u>	<u>449,614</u>	<u>307,574</u>
Annuity Reserve Fund:				
Annuities Paid	1,282,984	1,206,006	1,127,659	1,035,286
Option B Refunds	<u>63,950</u>	<u>3,536</u>	<u>21,537</u>	<u>53,242</u>
Sub Total	<u>1,346,934</u>	<u>1,209,542</u>	<u>1,149,196</u>	<u>1,088,528</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	6,418,063	6,003,744	5,617,951	5,254,608
Survivorship Payments	498,696	468,512	411,394	409,650
Ordinary Disability Payments	40,613	48,555	64,316	74,687
Accidental Disability Payments	2,005,014	1,972,293	1,977,214	1,904,519
Accidental Death Payments	276,424	291,726	269,586	244,239
Section 101 Benefits	152,208	145,352	152,565	152,261
3 (8) (c) Reimbursements to Other Systems	116,618	125,208	139,271	118,633
State Reimbursable COLA's Paid	92,213	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>9,599,848</u>	<u>9,055,390</u>	<u>8,632,297</u>	<u>8,158,597</u>
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>1,722</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	18,000	18,000	18,000	17,250
Salaries	102,855	90,346	82,677	99,858
Legal Expenses	2,788	16,109	9,365	14,058
Medical Expenses	0	0	70	1,748
Travel Expenses	3,335	8,158	7,092	3,288
Administrative Expenses	9,480	8,163	7,824	10,127
Furniture and Equipment	6,614	4,802	5,450	6,236
Management Fees	333,972	202,777	207,684	147,906
Custodial Fees	20,666	28,324	38,549	26,409
Consultant Fees	<u>77,843</u>	<u>75,979</u>	<u>64,769</u>	<u>59,475</u>
Sub Total	<u>575,553</u>	<u>452,659</u>	<u>441,479</u>	<u>386,354</u>
TOTAL DISBURSEMENTS	<u>\$11,708,715</u>	<u>\$11,084,901</u>	<u>\$10,674,309</u>	<u>\$9,941,053</u>

Arlington Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$1,528	\$15,876	\$14,645	\$11,960
Short Term Investments	12,184	53,039	53,773	56,373
Fixed Income	2,107,456	2,455,599	2,797,445	2,264,745
Equities	3,492	0	0	0
Pooled or Mutual Funds	1,113	0	0	0
Commission Recapture	0	0	0	0
TOTAL INVESTMENT INCOME	<u>2,125,773</u>	<u>2,524,513</u>	<u>2,865,864</u>	<u>2,333,078</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	152,318
Realized Gains	342,744	268,561	388,630	124,160
Unrealized Gains	26,623,814	38,067,185	24,476,828	29,624,601
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>314,738</u>	<u>438,318</u>	<u>480,698</u>	<u>436,896</u>
Sub Total	<u>27,281,295</u>	<u>38,774,063</u>	<u>25,346,156</u>	<u>30,337,975</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	(59,356)
Paid Accrued Interest on Fixed Income Securities	(78,878)	(99,510)	(98,484)	(204,966)
Realized Loss	(406,987)	(156,915)	(118,490)	(332,224)
Unrealized Loss	(42,089,127)	(48,032,785)	(30,893,342)	(13,423,832)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(438,318)</u>	<u>(480,698)</u>	<u>(436,896)</u>	<u>(438,597)</u>
Sub Total	<u>(43,013,309)</u>	<u>(48,769,908)</u>	<u>(31,547,213)</u>	<u>(14,458,975)</u>
NET INVESTMENT INCOME	<u>(13,606,240)</u>	<u>(7,471,331)</u>	<u>(3,335,193)</u>	<u>18,212,079</u>
Income Required:				
Annuity Savings Fund	261,731	342,186	368,833	372,396
Annuity Reserve Fund	308,419	286,364	284,754	274,109
Military Service Fund	42	45	61	63
Expense Fund	<u>575,553</u>	<u>452,659</u>	<u>441,479</u>	<u>386,354</u>
TOTAL INCOME REQUIRED	<u>1,145,745</u>	<u>1,081,255</u>	<u>1,095,128</u>	<u>1,032,923</u>
Net Investment Income	<u>(13,606,240)</u>	<u>(7,471,331)</u>	<u>(3,335,193)</u>	<u>18,212,079</u>
Less: Total Income Required	<u>1,145,745</u>	<u>1,081,255</u>	<u>1,095,128</u>	<u>1,032,923</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$14,751,985)</u>	<u>(\$8,552,586)</u>	<u>(\$4,430,321)</u>	<u>\$17,179,156</u>

Arlington Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$19,040	0.02%	100
Short Term		591,093	0.63%	100
Fixed Income		26,223,109	27.94%	40-80
Equities		9,337,074	9.95%	70
Pooled Short Term Funds		85,119	0.09%	
Pooled Domestic Equity Funds		43,870,066	46.74%	
Pooled International Equity Funds		13,302,928	14.17%	15
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		0	0.00%	
Pooled International Fixed Income Funds		0	0.00%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		439,016	0.47%	
Pooled Real Estate Funds		0	0.00%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		0	0.00%	100
GRAND TOTALS	\$0	<u>\$93,867,445</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Arlington** Retirement System was -12.64%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Arlington** Retirement System averaged 1.91%. For the 18-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Arlington** Retirement System was 9.58%.

Arlington Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The **Arlington** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

November 24, 1989

- 20.08(e) Enrollment in the Securities Lending Program offered by State Street Bank & Trust Company.

January 3, 1992

- 16.02(3) The Board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investment provided that the total of such expenses shall not exceed in any one year:
- (a) 1% of the value of the fund for the first \$5 million; and
 - (b) 0.5% of the value of the fund in excess of \$5 million.
- 16.02(4) The Board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

February 18, 1993

- 20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

February 15, 1995

- 20.03(1) Equity investments shall not exceed 55% of the portfolio valued at market, including international equities, which shall not exceed 5% of the portfolio valued at market.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

January 11, 1996

- 20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities, which shall not exceed 10% of the portfolio valued at market.
- 20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Arlington** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Arlington** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

October 18, 2002

Re - title of Fire and Police Signal Operators

Any member holding the title "Communication Dispatcher" with the job description supplied replace the positions of "fire or police signal operators", as stated in Chapter 32, § 3(2)(g) Group 2.

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

July 2, 2002

Non- elected Board Members

Non-elected board members who are compensated will be granted membership in the Arlington Contributory Retirement System. If a Board member's salary is \$2,500.00 annually or less, he/she shall be credited with one year of creditable service for every five years served. If a Board Member's annual salary is more than \$2,500.00, he/she shall be eligible for one year of creditable service for each year served. Board members who serve less than a full year will be eligible for proportional credit based upon the number of months served less than a year.

January 30, 2002

Elections

The Arlington Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Arlington Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board. In the event of a vacancy, a new election shall be conducted to fill a vacancy as soon as practicable and the member elected shall serve for the unexpired portion of the vacant term.

March 21, 2000

Compensation Regular compensation shall include:

- . Base annual salary.
- . Longevity pay.
- . Cost of living adjustments.
- . Educational incentives.
- . Night and shift differentials.
- . Holiday pay for public safety positions.
- . Auto allowance paid in a lump sum(s) not in the form of a reimbursement.
- . Clothing allowance paid in a lump sum(s) not in the form of a reimbursement.
- . Tool allowance paid in a lump sum(s) not in the form of a reimbursement.
- . Salary paid for temporary promotions (working out of grade).
- . The portion of a deferred pay raise that is considered regular compensation (applies to employees as previously provided by Town Meeting votes).
- . Salary paid from federal grants which would otherwise be regular compensation.

Regular deductions for retirement shall be made from regular compensation.

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Regular compensation shall not include:

- . Overtime pay
- . Payment for unused sick leave.
- . Payment for unused vacation.
- . Payment for unused personal days.
- . Bonuses
- . Any payment received solely as a result of giving notice of retirement.

This supplemental rule further defines regular compensation and is consistent with the provisions of G.L. c. 32 and the Commission's regulations.

July 27, 2000

Policy on Membership

- . All permanent full-time employees shall be eligible for membership in the Arlington Contributory Retirement System upon the date of employment.
- . Provisional, temporary, temporary provisional, intermittent, and seasonal employees as defined by the Town's personnel department shall not be eligible for membership unless otherwise required by law.
- . Any active or inactive member who becomes a temporary, intermittent, or seasonal employee shall continue to be a member of the Retirement System.
- . Pursuant to G.L. c. 32, section 3(2)(vi), elected officials may choose to become members of the Retirement System. Such officials must apply for membership within ninety days of assuming office.

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Stone Consulting, Inc.** as of **January 1, 2002**.

The actuarial liability for active members was	\$65,434,378
The actuarial liability for retired members was	88,017,483
The total actuarial liability was	153,451,861
System assets as of that date were	111,127,846
The unfunded actuarial liability was	<u>\$42,324,015</u>
 The ratio of system's assets to total actuarial liability was	 72.4%
As of that date the total covered employee payroll was	\$24,276,392

The normal cost for employees on that date was 7.60% of payroll

The normal cost for the employer was 4.70% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$111,128,000	\$153,452,000	\$42,324,000	72.4%	\$24,276,000	174.35%
1/1/2001	121,539,000	145,054,000	23,515,000	83.8%	22,747,000	103.38%
1/1/2000	115,627,000	143,325,000	27,698,000	80.7%	21,242,000	130.39%
1/1/1999	106,185,000	136,093,000	29,908,000	78.0%	20,781,000	143.92%
1/1/1998	96,318,000	127,057,000	30,739,000	75.8%	19,834,000	154.98%

Arlington Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	56	8	15	9	11	6	18	22	21	25
Ordinary Disability	1	6	1	0	0	0	1	0	0	0
Accidental Disability	2	0	4	0	1	1	2	0	1	3
Total Retirements	59	14	20	9	12	7	21	22	22	28
Total Retirees, Beneficiaries and Survivors	588	593	579	567	593	598	592	604	605	609
Total Active Members	651	666	672	685	691	697	697	700	719	762
Pension Payments										
Superannuation	\$3,641,669	\$4,240,343	\$4,336,755	\$4,382,624	\$4,559,534	\$4,923,290	\$5,254,608	\$5,617,951	\$6,003,744	\$6,418,063
Survivor/Beneficiary Payments	324,769	319,162	317,577	343,467	370,002	399,685	409,650	411,394	468,512	498,696
Ordinary Disability	144,099	144,365	143,475	101,939	76,416	6,933	74,687	64,316	48,555	40,613
Accidental Disability	1,511,095	1,608,211	1,768,597	1,847,728	1,842,662	1,916,595	1,904,519	1,977,214	1,972,293	2,005,014
Other	<u>0</u>	<u>352,424</u>	<u>419,106</u>	<u>348,701</u>	<u>502,097</u>	<u>512,275</u>	<u>515,133</u>	<u>561,422</u>	<u>562,286</u>	<u>637,463</u>
Total Payments for Year	<u>\$5,621,632</u>	<u>\$6,664,505</u>	<u>\$6,985,510</u>	<u>\$7,024,459</u>	<u>\$7,350,711</u>	<u>\$7,758,778</u>	<u>\$8,158,597</u>	<u>\$8,632,297</u>	<u>\$9,055,390</u>	<u>\$9,599,848</u>